

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: February 5, 2007

Bill Number: S.B. 310

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Committee Requesting Impact: Senate Finance Committee

Bill Summary

To amend Section 12-36-2120, as amended, Code of Laws of South Carolina, 1976, relating to sales tax exemptions, so as to exempt the gross proceeds of sales or sales price of durable medical equipment and related medical supplies eligible for Medicare or Medicaid reimbursement and which are sold by written prescription or certificate of medical necessity.

REVENUE IMPACT ^{1/}

This bill is expected to reduce General Fund sales and use tax revenue by an estimated \$10,931,840 in FY2007-08.

Explanation

This bill would exempt durable medical equipment (DME) and related supplies from sales and use tax when such equipment is purchased under a certificate of medical necessity and is reimbursable under the Medicare and/or Medicaid program. This exemption applies whether or not such purchases are made by Medicare and/or Medicaid beneficiaries. Based upon historic data provided by the Centers for Medicare and Medicaid Services (CMS) and the SC Department of Health and Human Services (DHHS), it is estimated that combined Medicare and Medicaid DME related expenditures will total an estimated \$252,930,270 in South Carolina in FY2007-08. Under current law, two major DME product categories, oxygen and related supplies and diabetic supplies, are already exempt from sales and use tax liability. According to data obtained from CMS and DHHS, oxygen and related supplies and diabetic supplies comprise roughly half of Medicare's and Medicaid's combined total DME expenditures annually. Removing an estimated 50 percent of Medicare and Medicaid DME expenditures already exempt under current law from estimated FY2007-08 Medicare and Medicaid total DME expenditures and applying a six percent sales and use tax rate to the remaining amount reduces total sales and use tax revenue by an estimated \$7,327,584. It is also estimated that non-Medicare and/or Medicaid beneficiaries will spend an estimated \$60,070,939 on eligible DME equipment and related supplies in FY2007-08, excluding purchases of oxygen and related supplies and diabetic supplies already exempt from sales and use tax liability. Applying a six percent sales and use tax rate to estimated eligible DME equipment and related supply purchases by non-Medicare and/or Medicaid beneficiaries in FY2007-08 reduces total sales and use tax revenue by an additional \$3,604,256 in FY2007-08. In total, exempting eligible purchases of DME equipment and related supplies by Medicare and/or Medicaid beneficiaries and non-beneficiaries is expected to reduce General Fund sales and use tax revenue by an estimated \$10,931,840 in FY2007-08.

/s/ William C. Gillespie

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.
